

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

March 1, 2017

H. Joseph Maney, Chairman
Essex Regional Retirement Board
Building 200, Suite 202
491 Maple Street (Route 62)
Danvers, MA 01923

Dear Mr. Maney:

The Public Employee Retirement Administration Commission has completed a review of the audit of the Essex Regional Retirement System conducted by the firm of Powers & Sullivan, LLC CPAs in accordance with the provisions of Chapter 32, Section 21 of the Massachusetts General Laws. The audit covered the period from January 1, 2012 to December 31, 2014. This audit was determined to be conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in 840 CMR 25.00 and in compliance with the provisions specified in PERAC Memo #20 / 2008.

We conducted an inspection of the work papers prepared by Powers & Sullivan, LLC CPAs at their offices in Wakefield, MA on January 7, 2016. We determined that the audit work papers demonstrated that audit tests were performed in sufficient detail to allow us to accept the final audit report as issued.

We supplemented the field work conducted by Powers & Sullivan, LLC CPAs with limited procedures designed to provide additional assurance that the accounting and management standards contained in 840 CMR 25.00 were adhered to and complied with. We requested payroll information from employers to determine the basis for member contributions; inspected payroll records to confirm benefit calculations; inspected certain records of the Essex Regional Retirement System to identify unresolved issues related to 91A compliance, and performed certain other tests.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the following exceptions:



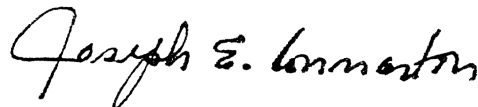
Essex Regional Retirement Board
March 1, 2017
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- ☐ Those specifically noted in the Report on Internal Control (and Management Letter) prepared by the firm of Powers & Sullivan, LLC CPAs and presented as part of this report. The content of such document will be posted on the PERAC web page as presented in the version submitted by Powers & Sullivan, LLC CPAs to the Essex Regional Retirement Board.
- ☐ Those related to our supplemental work are detailed on the attachment to this letter.

The financial statements and footnotes presented in this report were limited to the results as of and for the years ended December 31, 2012, December 31, 2013, and December 31, 2014.

In closing, I wish to acknowledge the work of Powers & Sullivan, LLC CPAs, who conducted this examination, and express my appreciation to the Board of Retirement and staff for their courtesy and cooperation. PERAC audit staff will follow up in six months to ensure that appropriate actions have been taken regarding all findings.

Sincerely,

A handwritten signature in black ink, reading "Joseph E. Connarton". The signature is written in a cursive, flowing style.

Joseph E. Connarton,
Executive Director

Explanation of Findings and Recommendations

I. Member Contributions

A review of payroll from 23 of the 42 units revealed the following errors (each applies to one unit only):

- ☐ Retirement deductions are being withheld from overtime pay. Overtime is not considered regular compensation pursuant to 840 CMR 15.03 3(f).
- ☐ Retirement deductions are not being withheld from a beeper stipend for on-call services during off-duty hours even though it meets the definition of regular compensation since it is pre-determined, non-discretionary, and guaranteed.
- ☐ An employee who received multiple paychecks in the same pay period had the correct retirement contributions withheld from the first paycheck but the additional paychecks (consisting of regular compensation) did not have any retirement contributions withheld.
- ☐ Car allowance, uniform allowance, moving expense, and mileage expense are incorrectly subject to retirement contributions. None of these are regular compensation pursuant to 840 CMR 15.03 3(f).

Recommendation: The Board is responsible for ensuring that units comply with the definition of regular compensation prescribed in 840 CMR 15.03. The Board should instruct the respective units to change contribution withholdings as appropriate.

Board Response:

ERRS concurs with PERAC's recommendation that the retirement system should continue to instruct the units on the proper manner in which to withhold retirement contributions. As described in the comments, the issues that comprised this finding occurred in four of the twenty-three units reviewed, or 17%. I would note that PERAC 's previous audit covering the years 2009-2011 found that 30% of ERRS units had incorrect pay codes and 25% had issues relating to the incorrect withholding of the additional 2%. The retirement system will continue to implement PERAC's recommendations with the goal of further reducing withholding errors.

2. §3(8)(c) Billings

A review of §3(8)(c) payments and billings found that two bills issued by the Board did not adjust the amounts of the Option C beneficiaries upon the death of the retired member, resulting in an overcharge to the other retirement boards.

Recommendation: The Board should ensure that §3(8)(c) bills are adjusted to account for Option C allowances. The Board should review all prior outgoing §3(8)(c) bills for overstatements and make the appropriate changes. The Board should also establish procedures for ensuring accuracy of these bills.

Board Response:

ERRS is aware of the two 3(8)(c) bills described in the audit comments and, as discussed at the exit conference, these two errors were corrected. As PERAC recommends, ERRS will continue the process of reviewing and verifying all 3(8)(c) bills before issuance or payment, and, further, will not pay any bills that are not properly documented

ESSEX REGIONAL RETIREMENT SYSTEM

FINDINGS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2013

Powers & Sullivan, LLC

Certified Public Accountants



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To the Honorable Essex Regional Retirement Board
Essex Regional Retirement System
Danvers, Massachusetts

In planning and performing our audit of the financial statements of the Essex Regional Retirement System (ERRS) as of and for the year ended December 31, 2013, we considered the system's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, we became aware of findings and other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations concerning these matters.

This letter does not affect our report dated August 27, 2014, on the financial statements of the Essex Regional Retirement System.

The accompanying comments and recommendations are intended solely for the information and use of management of the Essex Regional Retirement System (ERRS) and the Public Employees Retirement Administration Commission (PERAC), and are not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss them further at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Powers & Sullivan LLC

August 27, 2014

ESSEX REGIONAL RETIREMENT SYSTEM

FINDINGS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2013

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Abandoned PropertyFinding

The System has approximately \$10,000 of uncashed checks "abandoned property" recorded as a liability on the balance sheet. These checks all relate to prior fiscal years, mostly from 2010 when the System first began accounting for abandoned property. The System has not fully investigated whether the unclaimed checks are abandoned or if the checks should have been voided. The System has not taken additional steps to follow the Massachusetts Abandoned Property Law (MGL Chapter 200A) to take action to either locate the owners of the uncashed checks and to reissue them if necessary, or to follow the law for checks that have been found to be abandoned.

Recommendation

We recommend that the System implement a policy for following up on uncashed checks and to follow the state Abandoned Property Law.

Management Response

This finding relates to uncashed checks discovered as a result of the closure of our accounts with the Salem Five Bank in 2012. All of these checks are from 2010 or earlier. Many of these checks were re-issued checks, including a single check for \$5,000.

As these checks are from a period in which the record keeping of the retirement system was at best spotty and during a period in which reconciliations were sporadically performed, ERRS does not feel comfortable classifying these checks as abandoned property. Rather, ERRS believes these checks are more properly classified as a reconciling item and, given the time and amount involved, we further believe these checks should be written off with the appropriate documentation and journal entries recorded.

Maintaining Proof of AgeFinding

The System is required to confirm the age of each member by inspecting a birth certificate or other substantiation of the date of birth. A copy of this record should be maintained in the member's file. An inspection of retiree records determined that Birth Certificates were not on file in some cases.

Recommendation

We recommend that the System implement procedures to ensure that member files include proof of age.

Management Response

It is our understanding that those members who did not have birth certificates on file were enrolled prior to 2012 and were discovered during testing of refunds issued in 2013. ERRS is aware that prior to 2012, new enrollments were not always done properly or completely. We do not believe it is feasible to review in excess of 3,800 active and inactive member files to determine if each file contains the required proof of age.

However, ERRS does require proof of age documentation prior to processing a retirement application or if an active or inactive member's file is discovered to be missing this information during the normal course of business. Further, since 2012, the Membership Coordinator, as part of the enrollment process, sends out a

reminder form if certain documents, including proof of age, are missing. The Membership Coordinator maintains a data base of those new enrollees who have information missing and checks off the information as it is received. ERRS continues to monitor this data base and follows up regularly on outstanding missing documents.

ERRS would not normally seek to obtain proof of age for members taking a refund or transferring their accounts, as the issue would seem to be moot at that point.

Maintaining New Member Forms

Finding

The System should maintain enrollment forms for all members and the forms should be signed by both the employee (member) and by the employer. The System was unable to provide signed new member enrollment forms for some active members selected for testing.

Recommendation

We recommend that the System implement procedures to ensure that signed enrollment forms are on file for all active members.

Management Response

ERRS is aware that prior to 2012, many members were entered into the retirement system without a properly completed enrollment form. It is also our understanding that the active members selected for testing which were found to be missing new member enrollment forms were all from prior to 2012.

As described in the previous finding, since 2012, the Membership Coordinator does not process an enrollment application without a New Member Enrollment Form. The completed enrollment information is then submitted to the Executive Director for review, and, subsequently, all new enrollments are approved by a vote of the Board.

Also, as mentioned above, ERRS does not believe it is feasible to review in excess of 3,800 active and inactive member files to determine if each file contains the required enrollment form. However, as mentioned above, if an active or inactive member's file is discovered to be missing the new enrollment form during the normal course of business, the employer is contacted and the enrollment form is obtained and added to the file.

Maintaining I-9 Forms

Finding

The System did not maintain I-9 Forms in some of the employee files selected for testing. The I-9 Form is a United States Citizenship and Immigration Services form used by employers to verify employees' identities and to establish that workers are eligible to accept employment in the United States. Employers are required to have employees complete the I-9 Form, including providing required original supporting documents to establish the identity and eligibility of any individual hired to perform work for an employer in the United States.

Recommendation

We recommend that the System implement procedures to ensure that I-9 forms are on file for all current employees.

Management Response

ERRS has on file completed and verified I-9 Forms for all full-time employees of the retirement system. ERRS also has on file a completed and verified I-9 Form for the only new member added to the Board since 2011. However, we understand this finding pertains to Board Members elected by all or a defined group of the ERRS membership and who began their original terms of office in 2010.

ERRS will obtain I-9 Forms from all Board members and will include the I-9 Form in the new Board member packet going forward.

ESSEX REGIONAL RETIREMENT SYSTEM

***FINANCIAL STATEMENTS PREPARED IN ACCORDANCE
WITH PERAC RULES AND REGULATIONS***

YEARS ENDED DECEMBER 31, 2012-2014

ESSEX REGIONAL RETIREMENT SYSTEM
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE
WITH PERACE RULES AND REGULATIONS
YEARS ENDED DECEMBER 31, 2012 - 2014

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Financial Section



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Independent Auditor's Report

To the Honorable Essex Regional Retirement Board
Essex Regional Retirement System
Danvers, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Essex Regional Retirement System (ERRS) as of and for the years ended December 31, 2012, 2013, and 2014, and the related notes to the financial statements, which collectively comprise the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Commonwealth of Massachusetts Public Employee Retirement Administration Commission Rules and Regulations 840 CMR 5.03: Annual Report. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Commonwealth of Massachusetts Public Employee Retirement Administration Commission Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems," in existence as of August 27, 2004, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Essex Regional Retirement System as of December 31, 2012, 2013, and 2014, and the results of its operations and changes in its fund balances for the year then ended in accordance with the financial reporting provisions of the Commonwealth of Massachusetts Public Employee Retirement Administration Commission Rules and Regulations 840 CMR 5.03: Annual Report described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the ERRS on the basis of financial reporting provisions prescribed by the Commonwealth of Massachusetts Public Employee Retirement Administration Commission Rules and Regulations 840 CMR 5.03: Annual Report, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Commonwealth of Massachusetts Public Employee Retirement Administration Commission (PERAC). Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2015, on our consideration of the Essex Regional Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Essex Regional Retirement System's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the Essex Regional Retirement System, PERAC and all member units and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

August 14, 2015

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Financial Statements

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCE

DECEMBER 31, 2012 - 2014

	December 31, 2014	December 31, 2013	December 31, 2012
Assets			
Cash.....	\$ 794,947	\$ 725,868	\$ 3,444,886
Investments.....	369,752,995	343,370,777	299,551,111
Receivables:			
Members contributions.....	1,321,915	605,772	489,316
Intergovernmental.....	3,236	170,650	-
Interest/dividends due.....	117	152	319
Capital assets, net of accumulated depreciation.....	219,799	234,173	248,547
Total assets.....	<u>372,093,009</u>	<u>345,107,392</u>	<u>303,734,179</u>
Liabilities			
Accounts payable.....	621,553	105,560	30,675
Abandoned property.....	745	10,082	10,740
Total liabilities.....	<u>622,298</u>	<u>115,642</u>	<u>41,415</u>
Net assets available for pension benefits.....	\$ <u>371,470,711</u>	\$ <u>344,991,750</u>	\$ <u>303,692,764</u>
Fund Balance			
Annuity Savings Fund.....	\$ 119,540,097	\$ 115,430,190	\$ 110,085,892
Annuity Reserve Fund.....	34,710,993	33,622,716	32,428,306
Special Military Service Credit Fund.....	36,358	36,315	31,478
Pension Fund.....	2,968,252	149,450	6,163,818
Pension Reserve Fund.....	214,215,011	195,753,079	154,983,270
Total fund balance.....	\$ <u>371,470,711</u>	\$ <u>344,991,750</u>	\$ <u>303,692,764</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2014

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 14,524,722	\$ -	\$ -
Investment income.....	172,464	997,435	32
Total income.....	14,697,186	997,435	32
Disbursements and depreciation:			
Disbursements.....	(4,309,811)	(6,181,115)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(4,309,811)	(6,181,115)	-
Net change in fund balance before interfund transfers in (out).....	10,387,375	(5,183,680)	32
Interfund transfers in (out), net.....	(6,277,468)	6,271,957	11
Net change in fund balance.....	4,109,907	1,088,277	43
Fund balance at beginning of year.....	115,430,190	33,622,716	36,315
Fund balance at end of year.....	\$ 119,540,097	\$ 34,710,993	\$ 36,358

See notes to financial statements.

Pension Fund	Pension Reserve Fund	Expense Fund	Total
\$ 27,575,971	\$ 80,793	\$ -	\$ 42,181,486
-	27,216,205	3,146,906	31,533,042
27,575,971	27,296,998	3,146,906	73,714,528
(33,597,735)	-	(3,132,532)	(47,221,193)
-	-	(14,374)	(14,374)
(33,597,735)	-	(3,146,906)	(47,235,567)
(6,021,764)	27,296,998	-	26,478,961
8,840,566	(8,835,066)	-	-
2,818,802	18,461,932	-	26,478,961
149,450	195,753,079	-	344,991,750
\$ 2,968,252	\$ 214,215,011	\$ -	\$ 371,470,711

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2013

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 13,291,622	\$ -	\$ -
Investment income.....	137,266	960,763	27
Total income.....	13,428,888	960,763	27
Disbursements and depreciation:			
Disbursements.....	(2,274,918)	(5,571,859)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(2,274,918)	(5,571,859)	-
Net change in fund balance before interfund transfers in (out).....	11,153,970	(4,611,096)	27
Interfund transfers in (out), net.....	(5,809,672)	5,805,506	4,810
Net change in fund balance.....	5,344,298	1,194,410	4,837
Fund balance at beginning of year.....	110,085,892	32,428,306	31,478
Fund balance at end of year.....	\$ 115,430,190	\$ 33,622,716	\$ 36,315

See notes to financial statements.

<u>Pension Fund</u>	<u>Pension Reserve Fund</u>	<u>Expense Fund</u>	<u>Total</u>
\$ 25,564,357	\$ 205,922	\$ 122,514	\$ 39,184,415
-	40,578,922	2,896,208	44,573,186
<u>25,564,357</u>	<u>40,784,844</u>	<u>3,018,722</u>	<u>83,757,601</u>
(31,578,742)	-	(3,018,722)	(42,444,241)
-	-	(14,374)	(14,374)
<u>(31,578,742)</u>	<u>-</u>	<u>(3,033,096)</u>	<u>(42,458,615)</u>
(6,014,385)	40,784,844	(14,374)	41,298,986
<u>17</u>	<u>(15,035)</u>	<u>14,374</u>	<u>-</u>
(6,014,368)	40,769,809	-	41,298,986
<u>6,163,818</u>	<u>154,983,270</u>	<u>-</u>	<u>303,692,764</u>
\$ <u>149,450</u>	\$ <u>195,753,079</u>	\$ <u>-</u>	\$ <u>344,991,750</u>

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED DECEMBER 31, 2012

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund
Income:			
Receipts.....	\$ 13,339,718	\$ -	\$ 4,810
Investment income.....	139,733	915,065	25
Total income.....	13,479,451	915,065	4,835
Disbursements and depreciation:			
Disbursements.....	(1,993,606)	(5,234,664)	-
Depreciation.....	-	-	-
Total disbursements and depreciation....	(1,993,606)	(5,234,664)	-
Net change in fund balance before interfund transfers in (out).....	11,485,845	(4,319,599)	4,835
Interfund transfers in (out), net.....	(4,298,117)	4,296,383	1,734
Net change in fund balance.....	7,187,728	(23,216)	6,569
Fund balance at beginning of year.....	102,898,164	32,451,522	24,909
Fund balance at end of year.....	\$ 110,085,892	\$ 32,428,306	\$ 31,478

See notes to financial statements.

<u>Pension Fund</u>	<u>Pension Reserve Fund</u>	<u>Expense Fund</u>	<u>Total</u>
\$ 23,577,332	\$ 105,020	\$ -	\$ 37,026,880
-	32,685,373	2,438,165	36,178,361
<u>23,577,332</u>	<u>32,790,393</u>	<u>2,438,165</u>	<u>73,205,241</u>
(30,238,011)	-	(2,426,907)	(39,893,188)
-	-	(11,258)	(11,258)
<u>(30,238,011)</u>	<u>-</u>	<u>(2,438,165)</u>	<u>(39,904,446)</u>
(6,660,679)	32,790,393	-	33,300,795
-	-	-	-
(6,660,679)	32,790,393	-	33,300,795
<u>12,824,497</u>	<u>122,192,877</u>	<u>-</u>	<u>270,391,969</u>
\$ <u>6,163,818</u>	\$ <u>154,983,270</u>	\$ <u>-</u>	\$ <u>303,692,764</u>

STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 2012 - 2014

	December 31, 2014	December 31, 2013	December 31, 2012
Members deductions.....	\$ 11,866,401	\$ 11,524,553	\$ 11,070,037
Transfers of members' accounts from other systems.....	2,355,895	1,176,779	1,750,783
Members' makeup payments and redeposits.....	161,008	221,974	214,978
Member payments from rollovers.....	141,418	368,316	303,920
Reimbursements from other systems for Pension Fund.....	1,070,240	1,020,056	746,163
Received from Commonwealth for COLA and Survivor Benefits.....	408,751	355,158	426,040
Employers' contributions to Pension Fund.....	26,066,222	24,115,002	22,364,292
Workers compensation.....	20,500	56,000	23,600
Recovery of 91A Overearnings.....	10,258	18,141	17,237
Federal grant reimbursement.....	74,394	75,290	78,925
Interest not refunded.....	6,399	7,725	6,272
Military Service.....	-	-	4,810
Miscellaneous.....	-	245,421	19,823
Investment income (loss).....	31,533,042	44,573,186	36,178,361
Total income.....	\$ 73,714,528	\$ 83,757,601	\$ 73,205,241

See notes to financial statements.

STATEMENT OF DISBURSEMENTS

YEAR ENDED DECEMBER 31, 2012 - 2014

	December 31 2014	December 31 2013	December 31 2012
Refunds of members' accounts from Annuity Savings Fund.....	\$ 1,309,499	823,809	\$ 859,424
Transfer of members accounts to other systems from Annuity Savings Fund.....	3,000,312	1,451,109	1,134,182
Annuity portion of retirement allowance payments from Annuity Reserve Fund.....	5,963,412	5,569,640	5,234,664
Option B refunds from Annuity Reserve Fund.....	217,703	2,219	-
Superannuation and termination retirement allowance payments from Pension Fund.....	23,536,013	22,887,736	22,186,140
Survivor allowance payments from Pension Fund.....	1,779,671	1,650,745	1,659,123
Ordinary disability payments from Pension Fund.....	270,462	262,644	213,554
Accidental disability payments from Pension Fund.....	3,196,798	3,096,826	3,012,970
Accidental death benefits from Pension Fund.....	676,681	660,679	651,116
Section 101 benefits from Pension Fund.....	154,291	140,200	92,303
Reimbursements to other systems from Pension Fund.....	2,728,684	2,128,938	2,179,801
COLA's paid from Pension Fund.....	1,226,246	724,511	243,004
Dependant Allowance.....	28,889	26,463	-
Investment management and custodial fees from Expense Fund.....	2,210,181	1,958,765	1,589,792
Board member stipend from Expense Fund.....	20,000	15,000	14,997
Staff salaries from Expense Fund.....	455,339	438,478	433,809
Legal expenses from Expense Fund.....	67,665	227,221	67,304
Medical expenses from Expense Fund.....	32,337	33,929	-
Travel expenses from Expense Fund.....	4,350	6,492	6,392
Fiduciary insurance from Expense Fund.....	26,356	25,093	25,059
Professional services from Expense Fund.....	62,572	48,753	46,675
Administrative expenses from Expense Fund.....	184,501	179,585	174,747
Building operations and maintenance from Expense Fund.....	22,472	29,100	31,262
Technology expenses from Expense Fund.....	45,369	52,736	36,855
Education and training from Expense Fund.....	1,390	3,570	15
Depreciation from Expense Fund.....	14,374	14,374	11,258
Total disbursements and depreciation.....	\$ 47,235,567	42,458,615	\$ 39,904,446

See notes to financial statements.

STATEMENT OF INVESTMENT INCOME

YEAR ENDED DECEMBER 31, 2012 - 2014

	December 31, 2014	December 31, 2013	December 31, 2012
Gross investment income.....	\$ 11,024,650	\$ 9,278,844	\$ 8,855,121
Add:			
Profit on the sale of investments.....	17,773,210	15,133,452	7,032,940
Increase in market value of securities.....	25,670,504	37,174,436	35,964,530
Less:			
Loss on the sale of investments.....	(851,936)	(6,319,677)	(181,883)
Decrease in market value of securities.....	(22,083,386)	(10,693,869)	(15,492,347)
Net investment income (loss).....	31,533,042	44,573,186	36,178,361
Investment income required:			
Annuity Savings Fund.....	172,464	137,266	139,733
Annuity Reserve Fund.....	997,435	960,763	915,065
Special Military Service Credit Fund.....	32	27	25
Expense Fund.....	3,146,906	2,896,208	2,438,165
Total investment income required.....	4,316,837	3,994,264	3,492,988
Excess of investment income requiring transfer to Pension Reserve Fund.....	\$ 27,216,205	\$ 40,578,922	\$ 32,685,373

See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Plan is a contributory defined benefit plan covering all employees of governmental member units deemed eligible by the Essex Regional Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the Plan is mandatory immediately upon the commencement of employment for all non-teaching permanent, full time employees. The Plan is administered by the Essex Regional Retirement System (the System).

Originally instituted in 1937, as part of Essex County government, the Board served as the regional retirement system for Essex County upon the abolition of county government in 1996 and the current system structure was created by special legislation in July, 2010 (Chapter 34B, Section 19A of the Massachusetts General Laws). The System is governed by a five member Board who establish the policies under which the System operates. Board members also approve all of the System's financial transactions, including the approval of retirement benefits to members. Board members are appointed or elected as specified by MGL Ch. 34B, Section 19A for terms ranging from 3 to 5 years.

The day-to-day operations of the System are managed by the Executive Director. The legislative body for the System is an Advisory Council consisting of full-time treasurers or other qualified officials of the member units. The Advisory Council meets twice annually and is responsible for supervising and certifying the procedures involved in the election of members to the retirement board.

As of January 1, 2013, the System had 1,670 retirees and beneficiaries, 2,816 active participants and 1,009 inactive participants with a vested right to retirement benefits or to receive a refund of their contributions.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the retirement system: group 1, group 2, and group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service if hired after 1978 and if classified in groups 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 50 years of age with 10 years of service if in group 2, and 55 years of age if hired prior to 1978 or if classified in group 4. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. In past years, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the Retirement System's unfunded liabilities, and in some Systems have actually reduced such liability.

Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities and net assets are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balances are presented in different formats.

The underlying accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by PERAC.

The *Annuity Savings Fund* is the fund in which member's contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and the Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The *Special Military Service Credit Fund* contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The *Pension Reserve Fund* contains the amounts set aside by the system for the purpose of establishing a reserve to meet future pension liabilities. Any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund and Military Service Credit Fund is credited to the Pension Reserve Fund. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

The *Investment Income Account* is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Credit Service Fund and Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-person Board of Retirement. The first member shall be a chief executive or chief administrative officer of a member town, unit or district belonging to the Essex regional retirement system for a term of 3 years. This member shall be chosen by weighted vote of the chief executive or chief administrative officers of member towns, units or districts belonging to the Essex regional retirement system. The second member shall be a member of the regional retirement board advisory council, and shall be elected by a majority of those present and voting at a public meeting of the council and shall serve for a term of 3 years. The third and fourth members shall be elected by the members in or retired from service of the Essex county retirement system from among persons retired under the system and shall serve for a term of 3 years. The fifth member, who shall not be an employee, retiree or official of the retirement system, or of any of its constituent governmental units, shall be chosen by the other 4 members and shall serve for a term of 5 years.

First Member	Ira S. Singer	Term Expires:	12/1/2017
Second Member	Kevin A. Merz	Term Expires:	12/1/2015
Third Member	Susan J. Yaskell	Term Expires:	12/1/2016
Fourth Member	H. Joseph Maney	Term Expires:	12/1/2016
Fifth Member	Vincent R. Malgeri	Term Expires:	12/13/2015

Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the System. The Board must annually file a financial statement of condition for the System with PERAC.

The ERRS Advisory Council consists of the full time treasurers, elected or appointed, for each town, unit or district within the System. The members of the Advisory Council elect the second member of the Board of Retirement as well as a Chair from among its members. The ERRS Advisory Council is required by statute to meet twice per year, typically in the spring and fall. All ERRS Advisory Council meetings are open, public meetings and are subject to the Commonwealth's Open Meeting Law.

The investment of the System's funds is the responsibility of the Board. Disability retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. Superannuation retirement allowances are not required to obtain PERAC's verification. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

ERRS board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The MACRS program for ERRS provides \$50,000,000 fiduciary protection for Trustees and employees, as well as a \$1,000,000 fidelity policy for crime coverage.

NOTE 4 – CASH AND INVESTMENTS

The Essex Regional Retirement System has committed 90% of its investments to PRIT for a three year period and current investment regulations do not apply.

Custodial Credit Risk - Deposits

At December 31, 2014, the carrying amount of the System's deposits totaled \$794,947 and the bank balance totaled \$1,389,266 which was covered by the Federal Depository Insurance Corporation.

At December 31, 2013, the carrying amount of the System's deposits totaled \$725,868 and the bank balance totaled \$1,222,632 which was covered by the Federal Depository Insurance Corporation.

At December 31, 2012, the carrying amount of the System's deposits totaled \$3,444,886 and the bank balance totaled \$3,946,755 which was covered by the Federal Depository Insurance Corporation.

Investments

The System's investments over the past three years are as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Investment Type			
<u>Debt Securities:</u>			
Fixed Income..... \$	4,437	5,968	9,313
<u>Other Investments:</u>			
PRIT Pooled Funds.....	337,417,002	310,832,831	265,714,611
Money Market Mutual Funds.....	3,019,082	2,938,721	5,132,822
Pooled Alternative Investments.....	17,855,357	17,792,134	17,002,552
Pooled Real Estate Funds.....	11,457,117	11,801,123	11,691,813
Total Investments..... \$	<u>369,752,995</u>	<u>343,370,777</u>	<u>299,551,111</u>

Approximately 91%, 91%, and 89% of the Retirement System's investments consist of PRIT Pooled Funds for the years ended December 31, 2014, 2013, and 2012, respectively. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The Administration does not have the ability to control any of the investment decisions relative to its funds in PRIT.

Approximately 8%, 9%, and 10% of the System's funds consist of pooled alternative investments and pooled real estate funds for the years ended December 31, 2014, 2013, and 2012, respectively. The market values of assets in those funds are based on the quoted values obtained from each pool.

NOTE 5 – RECEIVABLES

At December 31, 2014, receivables for the System are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Member contributions..... \$	1,321,915	\$ -	\$ 1,321,915
Intergovernmental.....	3,236	-	3,236
Interest/dividends due.....	117	-	117
Total..... \$	<u>1,325,268</u>	<u>\$ -</u>	<u>\$ 1,325,268</u>

At December 31, 2013, receivables for the System are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Member contributions.....	\$ 605,772	\$ -	\$ 605,772
Intergovernmental.....	170,650	-	170,650
Interest/dividends due.....	152	-	152
Total.....	<u>\$ 776,574</u>	<u>\$ -</u>	<u>\$ 776,574</u>

At December 31, 2012, receivables for the System are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Member contributions.....	\$ 489,316	\$ -	\$ 489,316
Interest/dividends due.....	319	-	319
Total.....	<u>\$ 489,635</u>	<u>\$ -</u>	<u>\$ 489,635</u>

NOTE 6 – CAPITAL ASSETS

Capital assets are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

Capital Asset Type	Estimated Useful Life (in years)
Building.....	33
Equipment.....	5-20

The majority of capital assets owned by the System consists of two condominiums in Danvers, Massachusetts that were purchased for the administrative offices of the System. Both units were purchased in fiscal year 2000 for a total of \$375,250.

Total capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets being depreciated:</u>				
Buildings.....	\$ 375,250	\$ -	\$ -	\$ 375,250
Equipment.....	15,580	-	-	15,580
Total capital assets being depreciated.....	390,830	-	-	390,830
<u>Less accumulated depreciation for:</u>				
Buildings.....	(151,983)	(11,258)	-	(163,241)
Equipment.....	(4,674)	(3,116)	-	(7,790)
Total accumulated depreciation.....	(156,657)	(14,374)	-	(171,031)
Total capital assets being depreciated, net.....	234,173	(14,374)	-	219,799
Total governmental activities capital assets, net.....	\$ 234,173	\$ (14,374)	\$ -	\$ 219,799

Total capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets being depreciated:</u>				
Buildings.....	\$ 375,250	\$ -	\$ -	\$ 375,250
Equipment.....	15,580	-	-	15,580
Total capital assets being depreciated.....	390,830	-	-	390,830
<u>Less accumulated depreciation for:</u>				
Buildings.....	(140,725)	(11,258)	-	(151,983)
Equipment.....	(1,558)	(3,116)	-	(4,674)
Total accumulated depreciation.....	(142,283)	(14,374)	-	(156,657)
Total capital assets being depreciated, net.....	248,547	(14,374)	-	234,173
Total governmental activities capital assets, net.....	\$ 248,547	\$ (14,374)	\$ -	\$ 234,173

Total capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets being depreciated:</u>				
Buildings.....	\$ 375,250	\$ -	\$ -	\$ 375,250
Equipment.....	-	15,580	-	15,580
Total capital assets being depreciated.....	375,250	15,580	-	390,830
<u>Less accumulated depreciation for:</u>				
Buildings.....	(129,467)	(11,258)	-	(140,725)
Equipment.....	-	(1,558)	-	(1,558)
Total accumulated depreciation.....	(129,467)	(12,816)	-	(142,283)
Total capital assets being depreciated, net.....	245,783	2,764	-	248,547
Total governmental activities capital assets, net.....	\$ 245,783	\$ 2,764	\$ -	\$ 248,547

NOTE 7 – ACTUARIAL VALUATION

Components of the net pension liability as of the January 1, 2014 actuarial valuation were as follows:

Total pension liability.....	\$ 710,732,903
The pension plan's fiduciary net position.....	371,470,711
The net pension liability.....	\$ 339,262,192
The pension plan's fiduciary net position as a percentage of the total pension liability.....	52.27%

The significant assumptions and other inputs used to measure the total pension liability as of January 1, 2014 were as follows:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Closed - Approximate level percent of payroll.
Remaining amortization period.....	20 years for the fresh start base
Asset valuation method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Projected salary increases.....	Select and Ultimate. 7.50% year one, 6.5% year two, 6.00% year three, 5.50% year four, 5.00% year five, 3.75% ultimate rate.
Cost of living adjustments.....	3.0% of the first \$13,000 of a members retirement allowance is assumed to be granted every year.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	Disability is assumed to be 45% ordinary and 55% accidental for Group 1 and 2 and 10% ordinary and 90% accidental for Group 4.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 mortality table (sex-distinct) projected with scale BB and Generational Mortality. During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.
Disabled Retiree.....	The RP-2000 mortality table for healthy annuitants (sex-distinct) projected with scale BB and Generational Mortality set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time.
Investment rate of return/Discount rate.....	8.00% per year

The long-term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. The discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. The expected real rates of return below are provided by PRIT, adjusted using a 3.00% inflation assumption.

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Expected Asset Allocation</u>
Core Bonds.....	0.97%	13.00%
Value-Added Bonds.....	3.80%	10.00%
Large Cap Equities.....	4.61%	14.50%
Mid/Small Cap Equities.....	4.85%	3.50%
International Equities.....	5.10%	16.00%
Emerging Market Equities.....	6.31%	6.00%
Private Equity.....	6.55%	10.00%
Real Estate.....	3.40%	10.00%
Timber/Natural Resources.....	3.64%	4.00%
Hedge Funds.....	3.64%	9.00%
Cash/Portfolio Completion.....	0.00%	4.00%

Discount rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions for each year are the sum of projected normal cost, the amortization of the unfunded liability, administrative expense, and other benefit costs such as 3(8)c payments. Administrative expenses are increased by 4.00% per year. The System's fiduciary net position was projected to be available to make all future benefit payments of current active and inactive employees. Thus, the long-term expected rate of return on investments was applied for all benefit periods when calculating the net pension liability.

Sensitivity of the net position liability to changes in the discount rate. The following presents the net position liability, calculated using the discount rate of 8.00%, as well as what the net position liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate.

	<u>1. % Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1. % Increase (9.00%)</u>
Essex Regional Retirement System's net pension liability as of December 31, 2014.....	\$ 418,609,943	\$ 339,262,192	\$ 275,390,892

Contributions: Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The pension fund appropriations are allocated amongst employers based on covered payroll.

NOTE 8 – MEMBERSHIP

The following table represents the System's membership at December 31, 2014, 2013, and 2012:

	2014	2013	2012
Active members.....	2,677	2,816	3,013
Inactive members entitled to a return of contributions.....	1,110	1,009	914
Inactive employees or beneficiaries currently receiving benefits.....	1,729	1,670	1,624
Total.....	5,516	5,495	5,551

NOTE 9 – SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/14 \$	327,727,973	\$ 676,474,202	\$ 348,746,229	48.4%	\$ 119,733,698	291.3%
01/01/13	314,565,925	619,339,080	304,773,155	50.8%	119,292,287	255.5%
01/01/11	278,332,006	536,115,536	257,783,530	51.9%	119,707,156	215.3%